

**Management Advisory Report: Numerous  
Efforts Are Taken to Educate Taxpayers on  
Innocent Spouse Eligibility Requirements**

**March 2002**

**Reference Number: 2002-40-067**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

March 26, 2002

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - Numerous Efforts Are  
Taken to Educate Taxpayers on Innocent Spouse Eligibility  
Requirements (Audit # 200140053)

This report presents the results of our review to determine if the Internal Revenue Service (IRS) effectively educates taxpayers on the eligibility requirements for Innocent Spouse claims.

In summary, we found that the IRS is effectively educating taxpayers on the requirements that need to be met to qualify for Innocent Spouse relief. Educating taxpayers is achieved through the use of numerous outreach efforts, including: (1) detailing eligibility information in numerous IRS publications, forms, and notices; (2) providing a number of outlets from which taxpayers can easily obtain eligibility information; and (3) targeting specific segments of the taxpaying public that are more likely to be involved in an Innocent Spouse claim.

Management's Response: IRS management agreed with the finding and recommendations as presented in our report. While their response to recommendation number 2 indicates minor disagreement with the exact wording of the recommendation, their response indicates appropriate action for the issue. Our recommendation intended to ensure that territories have employees that can examine and process Innocent Spouse claims. We did not expect that all Taxpayer Assistance Center employees would be trained on this issue. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael Phillips, Acting Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-7085.

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### Background

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Some of the most important and major parts of the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98)<sup>1</sup> are provisions that broaden the eligibility requirements that need to be met to qualify for Innocent Spouse relief. Under these new provisions, requirements for obtaining relief are made less stringent with the intent to protect taxpayers from the tax misdeeds of their spouses. Some of these provisions include the following:

- A taxpayer must elect Innocent Spouse relief within 2 years after tax collection activities are begun.
- Divorced taxpayers and married taxpayers who are legally separated or are living apart for at least 1 year are permitted to elect separate tax liability despite having filed a joint return.
- The Tax Court has jurisdiction to review Innocent Spouse relief denials and to restrain IRS collection efforts while a Tax Court procedure is pending.
- The IRS is required to notify joint filers of the legal consequences of filing a joint return and to send any notice relating to a joint return separately to each individual on the return once a claim has been filed.

Innocent Spouse relief is available to those taxpayers who prove to the IRS that they signed a joint tax return without knowledge of incorrect and/or omitted items on the tax return that, once identified by the IRS, results in tax being owed by the individual filing for Innocent Spouse relief.

To qualify for Innocent Spouse relief, the individual claiming relief must meet certain conditions, including:

- File a joint tax return that understates the amount of tax owed. This understatement results from erroneous information either added to or excluded from the tax return by the spouse of the individual qualifying for relief.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (1998).

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- Establish that, at the time of signing the joint tax return, he or she did not know and had no reason to know that there was an understatement of tax owed.
- Fact(s) and circumstance(s) result in the conclusion that it would be unfair to hold the taxpayer liable for the understatement of tax owed.

Since the enactment of the RRA 98 on July 22, 1998, approximately 82,214 taxpayers have filed claims for Innocent Spouse relief for 1 or more tax years (see table below).

### Innocent Spouse Claims Received, Fiscal Years 1998 Through 2001

Fiscal Year	Claims Received	Taxpayers Who Filed Innocent Spouse Claims <sup>2</sup>
1998 <sup>3</sup>	2,542	1,338
1999	44,667	23,509
2000	57,388	30,204
2001	51,609	27,163
<b>Total:</b>	<b>156,206</b>	<b>82,214</b>

Source: IRS Innocent Spouse Project Office for the period July 22, 1998, to September 30, 2001.

This review was conducted at the IRS' centralized Innocent Spouse case processing site located in Covington, Kentucky, from July to October 2001. The review was conducted in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Detailed information on our review objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>2</sup> The 82,214 taxpayers were derived by dividing the total number of claims received (156,206) by the average number of tax modules per claimant (1.9) provided by the IRS' Innocent Spouse Project Office. Since taxpayers can request relief for multiple tax modules, *Claims Received* is in excess of *Taxpayers Who Filed Innocent Spouse Claims*.

<sup>3</sup> The time period for Fiscal Year 1998 is July 22, 1998, through September 30, 1998.

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### **Numerous Efforts Are Taken to Educate Taxpayers on Innocent Spouse Eligibility Requirements**

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The IRS is responsible for ensuring that the provisions of the RRA 98 are implemented and the rights of the requesting and non-requesting spouses are protected. In May 1999, the IRS created the Innocent Spouse Project Office to oversee the Innocent Spouse program. Our review identified that the IRS is effectively educating taxpayers about the requirements that need to be met to qualify for Innocent Spouse relief. Educating taxpayers is achieved through the use of numerous outreach efforts, including:

- Detailing eligibility information in numerous IRS publications, forms, and notices.
- Providing a number of outlets from which taxpayers can easily obtain eligibility information.
- Targeting specific segments of the taxpaying public that are more likely to be involved in an Innocent Spouse claim, including presentations at the low income tax clinics.

#### **Eligibility information is detailed in numerous IRS publications, forms, and notices**

To assist taxpayers in understanding if they qualify for Innocent Spouse relief, the IRS publishes two key documents that detail eligibility requirements. These two documents are Innocent Spouse Relief (and Separation of Liability and Equitable Relief) (Publication 971) and the instructions included with the Request for Innocent Spouse Relief (Form 8857).

Our review of all publications, forms, and notices for which Innocent Spouse information is included (see table below) identified that in 9 of these 11 documents the taxpayer was provided with the necessary eligibility information or was referred to the 2 key documents that contain information on Innocent Spouse relief and eligibility requirements.

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### Documents Containing Innocent Spouse Information

Title of Document	Document Number
Your Rights as a Taxpayer	Publication 1
Your Federal Income Tax for Individuals for Use in Preparing 2000 Returns	Publication 17
Divorced or Separated Individuals	Publication 504
The IRS Collection Process	Publication 594
Innocent Spouse Relief (and Separation of Liability and Equitable Relief)	Publication 971
Collection Appeal Rights	Publication 1660
Innocent Spouse Relief Brochure	Publication 3512
2000 U.S. Individual Income Tax Return Instruction Booklet	Form 1040
Request for Innocent Spouse Relief	Form 8857
Notification to Your Spouse or Former Spouse About Your Claim	Notice 1263
Balance Due Reminder Notice	Notice CP 501

Source: IRS Innocent Spouse Program Office.

However, the remaining two publications,<sup>4</sup> which are included with certain tax bills sent to taxpayers, did not provide eligibility information or references to where taxpayers could find this information should the taxpayer question his or her responsibility in paying the taxes owed. Without this information, the taxpayer may pay taxes that he or she is not responsible for. These 2 publications were provided in tax bills or other mailings sent to approximately 1.25 million taxpayers between the months of January and October 2001.

As Innocent Spouse relief is available to only those taxpayers who owe the IRS money, it is imperative that eligibility information or reference to the requirements that need to be met to obtain relief are included in tax bills sent by the IRS.

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<sup>4</sup> The IRS Collection Process (Publication 594) and Collection Appeal Rights (Publication 1660).

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In addition, the IRS has focused its educational efforts to include Spanish-speaking taxpayers who may qualify for Innocent Spouse relief. Currently, two IRS publications detailing Innocent Spouse requirements have been translated into Spanish,<sup>5</sup> with plans in place to translate additional documents.

### **Numerous outlets are provided from which taxpayers can easily obtain information**

The IRS provides taxpayers with numerous sources from which Innocent Spouse eligibility information can be easily obtained. The sources by which taxpayers can obtain Innocent Spouse information include:

- Accessing the IRS' public website (Digital Daily).<sup>6</sup> The website provides taxpayers with access to those publications, forms, and notices relating to Innocent Spouse claims. In addition, the website includes a probe and response "Eligibility Explorer" that displays on-line yes/no questions for a taxpayer to determine if he or she is eligible for Innocent Spouse relief.
- Contacting the IRS' Customer Service site.<sup>7</sup>
- Contacting the IRS' Teletax system.<sup>8</sup> The IRS' Teletax has pre-recorded Innocent Spouse eligibility information.
- Visiting an IRS Taxpayer Assistance Center (TAC). In addition to being able to obtain copies of publications, forms, and instructions, the taxpayer can receive assistance from an IRS employee at any of these sites.

If, after obtaining information from any of the above sources, a taxpayer still has questions about whether he or

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<sup>5</sup> The IRS Collection Process (Publication 594F) and Innocent Spouse Relief Brochure (Publication 3512SP).

<sup>6</sup> Digital Daily is located on the IRS' web site [www.irs.gov](http://www.irs.gov).

<sup>7</sup> Taxpayers can contact the IRS' Customer Service by calling 1-800-829-1040.

<sup>8</sup> Taxpayers can contact the IRS' Teletax System by calling 1-800-829-4477.

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she may qualify for relief, the IRS encourages these taxpayers to file a claim with the IRS. The IRS will then determine for the taxpayer whether he or she meets the requirements needed to file an Innocent Spouse claim.

The IRS includes training on Innocent Spouse provisions in its basic training for TAC employees. During the summer of 2001, the IRS expanded its training of TAC employees to include how to process an Innocent Spouse claim. As of October 2001, 7 of the 432 TAC sites had an employee who could assist taxpayers in processing an Innocent Spouse claim. The continued training of TAC employees on Innocent Spouse processing requirements is critical, as over 9 million taxpayers visited IRS TAC sites during Fiscal Year 2001.

### **Specific segments of the taxpaying public are targeted that are more likely to be involved in an Innocent Spouse claim**

Of the approximately 127 million U.S. individual income tax returns filed yearly, only about 27,000<sup>9</sup> taxpayers may be involved in an Innocent Spouse relief claim. As a result of the small number of taxpayers that may be involved in an Innocent Spouse claim, the IRS attempts to target those taxpayers, or groups that could interact with those taxpayers, that have a higher probability of being involved in a claim for Innocent Spouse relief.

The audiences the IRS targets include those taxpayers that are involved in a divorce or who have recently filed for divorce. Some of the outreach and marketing initiatives include:

- Brochures provided by a joint public service of the IRS and American Bar Association at IRS Problem Solving Days.
- The publication of “Family Law Forum.”

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<sup>9</sup> Average number of taxpayers filing Innocent Spouse claims for Fiscal Years 1999-2001 ( $\{23,509 + 30,204 + 27,163\}/3$ ).

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- IRS News Releases by the IRS' Communications Division.
- "Tip of the Day" promotion of the IRS' Innocent Spouse interactive website.

To ensure that successful initiatives between the IRS and external organizations to target specific segments of the taxpaying population continue, a system to record pertinent information about the external organization should be developed. We found that the method to track the various organizations is a self-policing, manual system with no formal procedures in place. Therefore, some successful partnerships may not be revisited on an annual basis.

The Innocent Spouse Project Office has also initiated a coordinated effort with the IRS' Stakeholder Partnership, Education, and Communications (SPEC) function. This is an effort that the IRS has taken to use its own organization to assist in targeting taxpayer audiences. In addition, Innocent Spouse information is to be included as part of SPEC-sponsored low income tax clinics.

### Recommendations

The Commissioner, Wage and Investment Division, should ensure that:

1. Information is included in tax bills detailing Innocent Spouse eligibility requirements or referring taxpayers to where this information can be found.

Management's Response: The IRS stated, "The updated Publication 594, now in final approval stage, directs taxpayers to Publication 971 and Form 8857 for details about relief from joint and several liability. We currently mail Publication 1660 as an enclosure with the Collection Due Process letter, along with Publication 594 and Form 12153, Request for a Collection Due Process Hearing. The Form 12153 Instructions already reference the filing of Form 8857 to request Innocent Spouse relief. Revised Publication 594 will provide information for most taxpayers receiving Publication 1660, until the latter publication is

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revised. When Form 12153 is revised, we will add the reference to Publication 971.”

2. The necessary funding is made available to continue to expand the training of the IRS’ TAC employees on Innocent Spouse processing requirements to provide taxpayers with the necessary assistance if they should visit a TAC site.

Management’s Response: The IRS stated that no corrective action was necessary. In its Assessment of Causes, it stated that funding of this training was not an issue and that due to the low volume of face-to-face contact expected, training would be limited to a few employees in each Territory.

Office of Audit Comment: While management’s response to recommendation number 2 indicates minor disagreement with the exact wording of the recommendation, their response indicates appropriate action for the issue. Our recommendation intended to ensure that territories have employees that can examine and process Innocent Spouse claims. We did not expect that all Taxpayer Assistance Center employees would receive this training.

3. A monitoring system is established to provide continuity of successful partnerships with external organizations for the purpose of educating target audiences on Innocent Spouse eligibility requirements.

Management’s Response: The IRS stated, “The IRS Stakeholder Partnerships, Education, & Communication (SPEC) function builds and leverages partnerships with external stakeholders who can provide useful information and assistance to more Wage and Investment taxpayers. For FY 2002, the Innocent Spouse Project Office coordinated with SPEC to cultivate and monitor partnerships with an interest in expanding awareness and understanding of the Innocent Spouse program.

The monitoring process centers on SPEC’s forthcoming contact management system, which captures program involvement. The Wage and Investment Division will be able to target and monitor partnerships offering access to audiences for a range of topics, including EITC, Innocent Spouse, Child Tax Credit, and Education Credits.”

### **Detailed Objective, Scope, and Methodology**

The overall objective of this audit was to determine if the Internal Revenue Service (IRS) effectively educates taxpayers on eligibility requirements for Innocent Spouse claims. To accomplish our objective, we:

- I. Determined what efforts the IRS had taken to educate taxpayers on Innocent Spouse eligibility requirements. Specifically, we interviewed Innocent Spouse Project management and obtained information about the various efforts taken to educate taxpayers on requesting Innocent Spouse relief.
- II. Determined if IRS forms, publications, and notices contained Innocent Spouse information to determine if eligibility requirements were provided and whether the taxpayer was referred to where the information could be located. Specifically, we:
  - A. Reviewed the Internal Revenue Code criteria regarding Innocent Spouse relief.
  - B. Interviewed Innocent Spouse Project management to determine which forms and publications were applicable to Innocent Spouse relief.
  - C. Analyzed all publications, forms, and notices for which Innocent Spouse information was included to determine whether eligibility requirements were detailed and whether taxpayers were referred to where the information could be located.
- III. Determined whether taxpayers could easily obtain Innocent Spouse eligibility information from the IRS. Determined if the IRS ensured that its website, pre-recorded Teletax number, and other outreach programs to public groups (such as the American Bar Association) included all pertinent and accurate information about filing an Innocent Spouse claim. Specifically, we:
  - A. Interviewed Innocent Spouse Project management about the various outreach programs that have been performed.
  - B. Obtained the dates that these outreach programs were performed and the frequency of having such programs.
  - C. Analyzed the IRS' Digital Daily website, Teletax number, and various outreach programs with other public groups for the accuracy, clarity, completeness, and consistency of its Innocent Spouse information. If not accurate, clear, complete, and consistent, we:
    1. Interviewed Innocent Spouse Project management and determined their procedures for revising or updating information regarding taxpayer eligibility requirements.

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- 2. Obtained documentation about any revisions being made to information regarding Innocent Spouse relief.
- D. Determined if more outreach programs should be implemented and if the appropriate taxpayers have been targeted.
- E. Determined the anticipated volumes of forms, publications, Teletax callers, and outreach program participants that will address preparing Innocent Spouse claims during Fiscal Year 2002.

**Major Contributors to This Report**

Michael Phillips, Acting Assistant Inspector General for Audit (Wage and Investment Income Programs)

Kerry Kilpatrick, Director

Russell Martin, Audit Manager

Edith Lemire, Senior Auditor

Roberta Fuller, Auditor

Grace Terranova, Auditor

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**Appendix III**

**Report Distribution List**

Commissioner N:C  
Innocent Spouse Project Manager W:ISP  
Director, Strategy and Finance W:S  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
Office of Management Controls N:CFO:F:M

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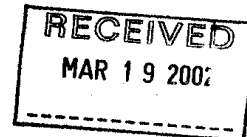
**Appendix IV**

**Management's Response to the Draft Report**



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

March 14, 2002



**MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT**

**FROM:** John M. Dalrymple  
Commissioner, Wage and Investment Division

**SUBJECT:** Draft Management Advisory Report – Numerous Efforts  
are Taken to Educate Taxpayers on Innocent Spouse  
Eligibility Requirements (Audit # 200140053)

I appreciate your recognition of our efforts to educate taxpayers about the relief from joint and several liability available under the Innocent Spouse tax laws. Since Innocent Spouse provisions were expanded in July 1998, we received over 175,000 claims affecting 92,000 taxpayers. We are committed to providing taxpayers with information on the Innocent Spouse eligibility provisions.

Between our outreach initiatives and our partnerships with outside stakeholders, Low Income Tax Clinics, for example, we contribute materially to the effective administration of the Innocent Spouse provisions. In addition, we continue to improve the Innocent Spouse claim form, publications, notices, letters, and interactive internet capability. I agree with your recommendation to include information on Innocent Spouse relief in tax bills sent to taxpayers and to monitor our external partnerships for continuity and consistency.

**RECOMMENDATION #1**

The Commissioner, Wage and Investment Division should ensure that information is included in tax bills detailing Innocent Spouse eligibility requirements or referring taxpayers to where this information can be found.

**Assessment Of Causes**

Publication 594, The IRS Collection Process, (Rev. 3-2001), discusses long-established collection practices, as does Publication 1660, Collection Appeal Rights, and (Rev. 5-2000). The publications do not include references to Publication 971, Innocent Spouse Relief, or to Form 8857, Request for Innocent Spouse Relief.

**Corrective Actions**

The updated Publication 594, now in final approval stage, directs taxpayers to Publication 971 and Form 8857 for details about relief from joint and several liability.

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We currently mail Publication 1660 as an enclosure with the Collection Due Process letter, along with Publication 594 and Form 12153, Request for a Collection Due Process Hearing. The Form 12153 Instructions already reference the filing of Form 8857 to request Innocent Spouse relief. Revised Publication 594 will provide information for most taxpayers receiving Publication 1660, until the latter publication is revised. When Form 12153 is revised, we will add the reference to Publication 971.

### **Implementation Dates**

Publication 594	May 2002
Publication 1660	Next revision
Form 12153	Next revision

### **Responsible Officials**

Jack G. Holstein  
Innocent Spouse Project Manager

### **Corrective Action Monitoring Plan**

We will conduct annual monitoring of forms and publications related to Innocent Spouse.

### **RECOMMENDATION #2**

The Commissioner, Wage and Investment Division should ensure that the necessary funding is made available to continue to expand the training of the IRS TAC employees on Innocent Spouse processing requirements to provide taxpayers with the necessary assistance if they should visit a TAC site.

### **Assessment of Causes**

Funding for Innocent Spouse assistance training is not an issue. We teach every Field Assistance employee about Innocent Spouse provisions and processing requirements during basic training. Additional Innocent Spouse training that we conducted during the summer of 2001 focused specifically on how to examine Innocent Spouse claims. After training, we piloted the use of Field Assistance employees in making determinations at the seven sites mentioned in the report. Because the total expected volume requiring face-to-face contact is very limited, training will be limited to relatively few employees in each Territory.

### **Corrective Actions**

None necessary.

### **Implementation Dates**

Not applicable.

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### **Responsible Officials**

Jerry Heschel  
Director, Field Assistance

### **Corrective Action Monitoring Plan**

Not applicable.

### **RECOMMENDATION #3**

The Commissioner, Wage and Investment Division should ensure that a monitoring system is established to provide continuity of successful partnerships with external organizations for the purpose of educating target audiences on Innocent Spouse eligibility requirements.

### **Assessment of Causes**

Using external partnerships to enhance understanding of the Innocent Spouse provisions is a recent strategy. A formal monitoring system had not been developed.

### **Corrective Actions**

The IRS Stakeholder Partnerships, Education & Communication (SPEC) function builds and leverages partnerships with external stakeholders who can provide useful information and assistance to more Wage and Investment taxpayers. For FY 2002, the Innocent Spouse Project Office coordinated with SPEC to cultivate and monitor partnerships with an interest in expanding awareness and understanding of the Innocent Spouse program.

The monitoring process centers on SPEC's forthcoming contact management system, which captures program involvement. The Wage and Investment Division will be able to target and monitor partnerships offering access to audiences for a range of topics, including EITC, Innocent Spouse, Child Tax Credit, and Education Credits.

### **Implementation Date**

October 15, 2003

### **Responsible Official**

Mark Pursley  
Director, Stakeholder Partnerships, Education & Communication

### **Corrective Action Monitoring Plan**

We will conduct annual monitoring when the new system is operational.

If you have any questions or need additional information, please contact Jack G. Holstein, Innocent Spouse Project Manager, at (202) 622-6966 or (919) 471-9861.